

ARGENTINA
INFLATION REPORT

ECONOMIC SECTION

U.S. EMBASSY

BUENOS AIRES

July 2003

SUMMARY

The official Consumer Price Index (CPI) increased 0.4 percent in July 2003. This is the first rise in the cost of living after two months of deflation. Miscellaneous goods & services was the CPI component with the highest increase, while clothing had the greatest decrease. Average nominal salaries increased 0.6 percent in June over May 2003. Most economists agree that the increase in July CPI results from higher demand from entertainment and other goods and services related to the winter holidays. The price stability of the other goods and services included in the CPI was supported by stable nominal salaries since the devaluation, low volatility in the foreign exchange market, and the agreement between oil producers, oil refiners and the GOA to maintain fuel prices through the end of July. The Wholesale Price Index (IPIM) decreased 0.1 percent during July 2003, bringing the total IPIM increase since December 2001 to 112.5 percent. Private housing construction costs in Greater Buenos Aires increased 0.7 percent during July 2003 and were up 45.9 percent compared to December 2001. CPI inflation predictions for 2003 by 20 well-known think tanks average 7.5 percent. The GOA CPI growth estimate for 2003 is 9.0 percent.

THE CONSUMER PRICE INDEX

The official Consumer Price Index (CPI) increased 0.4 percent in July 2003. This is the first rise in the cost of living after two months of deflation. CPI increased 44.5 percent since December 2001, the last month before the January 2002 devaluation. Prices of goods increased 0.1 percent while prices of services increased 1.0 percent in July. They grew 71.2 percent and 15.8 percent, respectively, since December 2001.

The official CPI only measures inflation in the Greater Buenos Aires urban area.

The highest monthly price rise was a 4.55 percent increase for miscellaneous goods and services, followed by entertainment that grew 3.77 percent. Food and beverages did not change, while clothing declined 2.1 percent. Clothing rose 67.1 percent since December 2001, whereas food and beverages increased 61.0 since that date. These are the two CPI components with the greatest increases since December 2001.

TABLE ONE
CONSUMER PRICE INDEX (1999=100)

YEAR	END OF PERIOD	PCT CHG PREV YR
1998	101.7	0.7
1999	99.9	-1.8
2000	99.1	-0.7
2001	97.6	-1.5
2002	137.6	41.0

	AVERAGE	PCT CHG PREV MO
2002		
JAN	99.8	2.3
FEB	103.0	3.1
MAR	107.1	4.0
APR	118.2	10.4
MAY	122.9	4.0
JUN	127.4	3.6
JUL	131.4	3.2
AUG	134.5	2.3
SEP	136.3	1.3
OCT	136.6	0.2
NOV	137.3	0.5
DEC	137.6	0.2
2003		
JAN	139.4	1.3

FEB	140.2	0.6
MAR	141.0	0.6
APR	141.1	0.1
MAY	140.5	-0.4
JUN	140.4	-0.1
JUL	141.0	0.4

Source: National Bureau of Statistics and Census (INDEC).

Average nominal salaries increased more than monthly inflation during June 2003. The National Bureau of Statistics and Census (INDEC) estimated that average nominal salaries increased 0.6 percent in June over May 2003. This was due to a 1.0 percent rise in salaries for formal employees, a 0.1 percent decrease for informal employees in the private sector, and no change for employees in the public sector. These increases include the effects on salaries of Presidential Decree 905/2003, which established a salary increase for private sector employees of ARP 150 since April 2003.

The lack of indexation has resulted in low nominal salary increases since the devaluation. Salaries increased by 15.70 percent between December 2001 and June 2003, meaning that the purchasing power of salaried workers is 82.0 percent of what it was before the January 2002 devaluation.

According to INDEC, the increase in July CPI results from higher demand for entertainment and other goods and services related to the winter holidays. The price stability of the other goods and services included in the CPI was supported by stable nominal salaries since the devaluation, low volatility in the foreign exchange market, and the agreement between oil producers, oil refiners and the GOA to maintain fuel prices through the end of July.

WHOLESALE PRICE INDEXES

The Wholesale Price Index (IPIM) decreased 0.1 percent during July 2003, bringing the total IPIM increase since December 2001 to 112.5 percent. This index measures the price changes of national products (including primary products and manufactured goods and electric power) and imports sold in the domestic market. The IPIM includes taxes. National product prices decreased 0.2 percent in July. This was due to a 0.04 percent decrease in primary product prices, and a 0.2 percent increase in the "manufactured goods and electric power" price category. Import prices fell by 2.1 percent during the same period.

The Index of Wholesale Basic Prices (IPIB) has the same coverage as the IPIM. However, the IPIB does not include taxes. IPIB declined 0.2 percent in July, bringing the total IPIB increase since December 2001 to 117.6 percent. National product prices did not change. Import prices decreased by 2.0 percent in the same period.

The prices for the sectors measured in the IPIM and IPIB are weighed using the corresponding value of product net of exports. INDEC has devised another index, the Index of Basic Prices to Producers (IPP), whose weights are calculated considering sales in the internal market as much as sales to the external market and excluding imports and taxes. The IPP declined 0.2 percent in July, bringing the total IPP increase since December 2001 to 116.6 percent. Primary products decreased 0.5 percent in July and manufactured goods and electric power declined 0.1 percent.

CONSTRUCTION PRICES

The INDEC index measuring private housing construction costs in Greater Buenos Aires increased 0.7 percent during July 2003. These costs were 45.9 percent higher than those prevailing in December 2001. This monthly rise is the result of a 0.1 percent increase in the cost of materials, a 1.7 percent increase in the cost of labor and a 0.4 percent growth in other construction costs. Wages of salaried employees working for the sector rose 2.5 percent whereas payments to the self-employed increased by 0.4 percent. Professional fees are not included among the labor costs considered by INDEC in the construction sector.

INFLATION PREDICTIONS FOR 2003

CPI inflation predictions for 2003 by 20 well-known think tanks average 7.5 percent. These predictions include a wide range of views, ranging from a minimum of 5.0 to a maximum of 10.6 percent. These projections are lower than the ones predicted earlier this year; the previous predicted average was 8.9 percent. The same think tanks predict a 9.3 percent inflation rate for 2004. The GOA CPI growth estimate for 2003 is 9.0 percent. This is significant in terms of monetary policy because the Argentine Central Bank is implementing inflation targeting and the IMF agreement includes a maximum CPI increase of 22 percent for 2003.